

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2019-281-S**

IN RE:)
)
Application of Palmetto Utilities, Inc. for)
adjustment of rates and charges for, and)
modification to certain terms and conditions)
related to, the provision of sewer service.)

**PREFILED DIRECT TESTIMONY
OF
WILLIAM CRAWFORD
ON BEHALF OF PALMETTO
UTILITIES, INC.**

Q. PLEASE STATE YOUR NAME, PRESENT POSITION, AND BUSINESS ADDRESS.

A. My name is William Crawford. I am the President of Pacolet Milliken, LLC (“Pacolet”), the owner of Ni Pacolet Milliken Utilities, LLC (“Ni”) and all of its subsidiaries, which includes the applicant, Palmetto Utilities, Inc. (“PUI”). My primary business address is 550 South Main Street, Greenville, SC 29601.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I graduated from Indiana University with Bachelors and Masters degrees in Piano Performance and received my law degree from Harvard Law School. For a dozen years, I was a member of the Wyche Firm in Greenville, SC, focusing on M&A, corporate and securities transactions. Subsequent to that, I was the General Counsel and Chief Risk Officer for The South Financial Group, Inc., a publicly-traded bank holding company headquartered in Greenville, SC. I joined Pacolet in 2013, first as general counsel, then as Chief Operating Officer and now as President. I have been extremely involved in the oversight and management of Ni Pacolet since Pacolet acquired it in 2015.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide the Commission with pertinent background regarding Pacolet and its indirectly held regulated operating subsidiaries, investments in them, their responsiveness to service and environmental needs, and the results realized from our investments.

1 **Q. WHO OWNS PUI AND WHAT IS ITS CORPORATE STRUCTURE?**

2 A. PUI is indirectly owned by Pacolet, a private investment company headquartered in
3 Greenville, SC that is owned by the Milliken family. In March 2015, Pacolet indirectly
4 acquired three South Carolina wastewater utility companies: (1) PUI, (2) Palmetto of
5 Richland County LLC (“PRC”) and (3) Palmetto Wastewater Reclamation, LLC
6 (“Alpine/Woodlands”). With Commission approval, PRC was merged into PUI in 2017,
7 and its customers, assets and operations were subsumed within PUI.

8
9 **Q. PLEASE DESCRIBE PUI’S 2017 RATE CASE.**

10 A. PUI filed a rate case in 2017 (the “2017 Rate Case”) to address roughly \$80 million in capital
11 expenditures (capx) it had made and other matters. In that case, PUI voluntarily offered to
12 phase in the increase in three annual increases, in light of the fact that the capx and
13 additional operating expense (opex) would require a material increase in rates (from a
14 blended average rate of \$38.51 to \$68.05). The 2017 Rate Case had three major
15 components: (1) the capx that had been placed in service, (2) the increased operating
16 expense (opex) and (3) recognition of the return on investment and depreciation expense
17 related to the rate base associated with the PRC assets. This third item is often referred to
18 herein as the “PRC Rate Base issue”. The PRC rate base valuation was unclear, in large
19 part because the City did not keep accounting records related to just the facilities serving
20 the 11,370 customers and in any event had woefully inadequate accounting records.

21
22 **Q. HOW DID THE 2017 RATE CASE TREAT THE PRC RATE BASE ISSUE?**

23 A. Because of the uncertainty around valuation and the lack of City records and the difficulty
24 in getting the ORS to engage constructively on the issue (in a timely manner in advance of
25 the 2017 Rate Case), PUI agreed to postpone the determination of the PRC Rate Base issue
26 until the next rate case, which is this case.

27
28 **Q. PLEASE DISCUSS ORS’ INTERACTION WITH PUI, PARTICULARLY AS IT RELATES TO THE**
29 **2017 RATE CASE AND THE PRC RATE BASE ISSUE.**

30 A. Though the result of the 2017 Rate Case was acceptable to PUI, PUI believes that ORS’s
31 interaction with PUI was unnecessarily adversarial and inconsistent with ORS’s statutory
32 duty to support PUI’s financial integrity and continued maintenance of its facilities. This

1 is particularly concerning given the fact that PUI has been an exceptional company trying
 2 to do the right thing – spending tens of millions to upgrade wastewater operations,
 3 providing solutions to the State for problem wastewater operations and otherwise being a
 4 very conscientious, responsible operator. This manifested itself in two respects in
 5 particular. First the ORS refused to annualize known monthly expenses relating to the
 6 operation of the reconfigured and expanded Spears Creek WWTP. Second, the ORS did
 7 not engage constructively on the PRC Rate Base issue.

8
 9 The ORS initially told PUI that they had no issue with the \$18 million valuation, but that
 10 we needed to ascertain the amount of CIAC. PUI then procured a CIAC study, which
 11 determined that there was no cash CIAC to be accounted for because the key CIAC
 12 component was a treatment plant expansion fee paid by customers (and no treatment plant
 13 was acquired). ORS then refused to accept the CIAC report and told PUI that ORS (at PUI
 14 expense) needed to get a third party valuation to determine both the value of the assets and
 15 the CIAC. This process for selecting a third party dragged on for months. During the
 16 process, we asked that we be allowed to speak with the third party, to make certain that
 17 there were no misunderstandings. This never happened, and the resulting report has
 18 enormous ambiguity. Ultimately GDS produced a report premised on a “single accounting
 19 entry” that it did not reveal, discuss or explain. Based on this entry, though, it “surmised”
 20 the amount of the CIAC, stating that “it believed about \$16.71 million could be
 21 considered as donated.” It followed up on that to say that the CIAC was “most likely” \$1.29
 22 million. (These were the strongest words it could muster.) At the end of the day, we believe
 23 they were looking for a particular number, without regard to the facts. To reiterate -- the
 24 result of the 2017 Rate Case was something that PUI could live with (and in fact PUI did
 25 not appeal the PSC ruling) but we believe that we have been dealt with in a non-
 26 constructive manner.

27
 28 **Q. WHAT HAS BEEN THE ECONOMIC REALITY OF PUI’S INVESTMENT?**

29 A. Since March 2015, PUI has invested \$80 million in capx that is used/useful. None of it
 30 was optional or made economic sense to postpone. Thus, in no way was this a VC Summer
 31 situation. In the last rate case, Palmetto only received a 3.5% incremental return on the
 32 \$80 million of investment and 0% on the \$18 million in PRC assets.

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 A. Yes, it does.